

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of White Cloud	County Newaygo
Fiscal Year End June 30, 2007	Opinion Date December 10, 2007	Date Audit Report Submitted to State December 12, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (616) 975-4100		
Street Address 2330 East Paris SE		City Grand Rapids	State MI	Zip 49546
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

**CITY OF WHITE CLOUD**  
**NEWAYGO COUNTY, MICHIGAN**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

# CITY OF WHITE CLOUD

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**CITY OF WHITE CLOUD**  
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**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

## **INDEPENDENT AUDITORS' REPORT**

December 10, 2007

Honorable Mayor and  
Members of the City Council  
City of White Cloud, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of White Cloud, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of White Cloud, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of White Cloud, Michigan as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and major streets special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 10, 2007, on our consideration of the City of White Cloud's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of White Cloud's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of White Cloud's basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

**CITY OF WHITE CLOUD**  
Newaygo County, Michigan

**Management's Discussion and Analysis**

For the year ended June 30, 2007

This section of the City of White Cloud's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2007.

**Financial Highlights**

Our financial status remained stable over the last year. Net Assets at June 30, 2007, totaled \$3,406,739 for governmental activities and \$590,309 for business type activities. Of these totals, \$3,012,425 and \$470,449 respectively, represented capital assets net of depreciation and related debt. Overall, net assets increased \$49,203.

During the fiscal year ending June 30, 2007, The City initiated a number of activities and capital improvements through out the Community. With the financial support of The Fremont Area Community Foundation, improvements were provided to the North Street Sports Complex ( John Graves Memorial Park) including renovating the concession and restroom building, equipment storage building, and two open air picnic shelters. In addition, new dugouts were built on the baseball field complete with new fencing and backstops. The City completed the planning of a skateboard park facility to be located at Smith Park which will also provide an ice skating rink in the winter months. Through a community partnership with Everett Township, the City initiated a community cleanup program in June. In partnership with Newaygo County Road Commission, the resurfacing of Gibbs St from Wilcox to Pinehill and Pinehill from Gibbs to Charles was completed. In addition, James St. from Charles east to the railroad tracks received curb and gutter and widening/resurfacing. The City also performed street patching on Weiner, Adams and North St. The City Campground continued to receive DDA support to upgrade electrical services to campsites and a grant from the Fremont Area Community Foundation was received to initiate a development plan to improve site access to the White River as well as improve fishery habitat and enhance the park as a classroom environment for educational classes.

**Overview of Financial Statements**

The management's discussion and analysis introduces the City's basic financial statements. The basic financial statements include the City-wide financial statements, fund financial statements, and notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

**Government-wide Financial Statements**

The City-wide statements report information about the entity as a whole using accounting methods used by private companies. The statement of net assets includes all of the City's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

## **Government-wide Financial Statements (continued)**

The two City-wide statements report net assets and how they have changed. Net assets are the difference between the City's assets and liabilities, and should be used to measure the City's financial health or position. Over time increases / decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the City you may also have to consider additional factors such as tax base changes, facility conditions, and personnel changes.

Most of the activities of the City are reported as governmental activities. These would include General, Major Street, Local Street, Campground, Cemetery, Drug Enforcement, Economic Development, Local Development, Improvement Revolving, Land Acquisition, Compensated Absences, and Motor Pool funds.

The Water fund is treated as a business activity where revenues of the activity are designed to pay for operations of the activity.

## **Fund Financial Statements**

The fund financial statement provide more detailed information about the City's funds, focusing on significant (major) funds not the City as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The City Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The City has the following types of funds:

**Governmental Funds:** Most of the City's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the City's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The City's governmental funds include: General, Major Street, Local Street, Campground, Cemetery, Drug Enforcement, Economic Development, Local Development, Improvement Revolving, and Land Acquisition.

**Proprietary Funds:** These funds represent activities in the government, which are basically treated like private sector companies. These funds are designed to have revenues earned adequate to pay for the operations of the activity. These funds are presented on a full accrual method and will show no difference between the City's government-wide statements and fund statements presentation. The City's proprietary funds include: Water, Compensated Absences, and Motor Pool.



## **Financial Analysis of the City as a whole**

### **City of White Cloud's Net Assets**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Assets</b>						
Current and other assets	\$ 463,563	\$ 385,681	\$ 122,625	\$ 156,621	\$ 586,188	\$ 542,302
Capital assets, net	3,422,087	3,445,835	1,167,548	1,169,079	4,589,635	4,614,914
Total assets	3,885,650	3,831,516	1,290,173	1,325,700	5,175,823	5,157,216
<b>Liabilities</b>						
Long-term liabilities	455,625	472,886	697,099	716,123	1,152,724	1,189,009
Other liabilities	23,286	17,766	2,765	2,596	26,051	20,362
Total liabilities	478,911	490,652	699,864	718,719	1,178,775	1,209,371
<b>Net assets</b>						
Invested in capital assets, net of related debt	3,012,425	2,943,070	470,449	459,579	3,482,874	3,402,649
Restricted	206,716	-	-	35,119	206,716	35,119
Unrestricted	187,598	397,794	119,860	112,283	307,458	510,077
Total net assets	\$ 3,406,739	\$ 3,340,864	\$ 590,309	\$ 606,981	\$ 3,997,048	\$ 3,947,845

Net Assets: The City's combined net assets increased by \$49,203 during the year ended June 30, 2007, totaling \$3,997,048.

### **City of White Cloud's Changes in Net Assets**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 63,749	\$ 63,682	\$ 168,979	\$ 292,764	\$ 232,728	\$ 356,446
Operating grants and contributions	134,187	323,510	-	-	134,187	323,510
Capital grants and contributions	92,754	388,195	-	-	92,754	388,195
General revenues:						
Property taxes	285,338	254,566	-	-	285,338	254,566
Other	161,647	108,452	-	-	161,647	108,452
Unrestricted investment earnings	24,663	18,359	3,139	4,597	27,802	22,956
Gain on sale of capital assets	-	-	-	-	-	-
Total revenues	762,338	1,156,764	172,118	297,361	934,456	1,454,125

**City of White Cloud's Changes in Net Assets (continued)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Expenses</b>						
Legislative	7,034	7,447	-	-	7,034	7,447
General government	206,421	182,087	-	-	206,421	182,087
Public safety	181,882	220,026	-	-	181,882	220,026
Public works	251,501	820,821	-	-	251,501	820,821
Recreation and cultural	28,734	26,241	-	-	28,734	26,241
Community and economic development	18,936	-	-	-	18,936	-
Interest on long-term debt	1,955	8,255	-	-	1,955	8,255
Water	-	-	188,790	207,473	188,790	207,473
Total expenses	696,463	1,264,877	188,790	207,473	885,253	1,472,350
Transfers	-	127,358	-	(52,000)	-	75,358
Change in net assets	65,875	19,245	(16,672)	37,888	49,203	57,133
Net assets, beginning of year, as restated	3,340,864	3,321,619	606,981	569,093	3,947,845	3,890,712
<b>Net assets, end of year</b>	<b>\$ 3,406,739</b>	<b>\$ 3,340,864</b>	<b>\$ 590,309</b>	<b>\$ 606,981</b>	<b>\$ 3,997,048</b>	<b>\$ 3,947,845</b>

Governmental Activities: The net assets for governmental activities increased by \$65,875.

Business-Type Activities: The net assets for business-type activities decreased by \$16,672.

**Financial Analysis of the City's Funds**

**General Fund:** This fund is used to record all activities of the City not required to be recorded in a separate fund. This would include City Council, administrative, election, building and grounds, police, zoning, parks, and other activities. The major source of revenue for the General fund is from the City property tax base and the revenue sharing from the State of Michigan. The total Fund Equity of the General fund increased by \$4,404 during the year ended June 30, 2007, and totaled \$118,178.

**Major Streets:** This fund is used to record revenues and expenses for major streets located within the City. The major source of revenue comes from the State of Michigan in the form of Act 51 funding. This fund also records contributions from other entities and transfers from other funds contributing to paving projects. The major expense for this fund is construction of new paving projects and maintenance and snow removal. The total Fund Equity of the Major Streets fund increased by \$1,726 during the year ended June 30, 2007, and totaled \$53,201.

Local Streets: This fund is used to record revenues and expenses for local streets located within the City. The major source of revenue comes from the State of Michigan in the form of Act 51 funding. This fund also records contributions from property owners and transfers from other funds contributing to paving projects. The major expense for this fund is construction of new paving projects and maintenance and snow removal. The total Fund Equity of the Local Streets fund increased by \$9,552 during the year ended June 30, 2007, and totaled \$39,019.

Park Campground: This fund is used to record revenues from a percentage of the fees collected at the campground and transfers from other funds for improvements. The major expenses are improvements such as electrical and water service additions and maintenance. The total Fund Equity of the Park Campground fund decreased by \$351 during the year ended June 30, 2007, and totaled \$2,029.

Cemetery: The major source of revenue is from the sale of cemetery plots and openings for burials. The expenses incurred are for maintenance. The total Fund Equity of the Cemetery fund decreased by \$8,604 during the year ended June 30, 2007, and totaled \$4,016.

Drug Enforcement: The major source of revenue is from the proceeds gained from police drug busts. These funds must be used for drug enforcement expenses. These funds were accounted for in the General fund prior to July 1, 2006. The Fund Equity of the Drug Enforcement fund for the year ended June 30, 2007, totaled \$2,808.

Economic Development: The major source of revenue is from public and private organization contributions for community special events. The expenses are for promoting and putting on community special events. This fund was added in fiscal year 2006 / 2007. The Fund Equity of the Economic Development fund for the year ended June 30, 2007, totaled \$10,801.

Local Development: The major source of revenue is from the default on the sale on a portion of the Industrial Park. The expenses are for Certification fees for the Industrial Park from the State of Michigan. The total Fund Equity of the Local Development fund decreased by \$200 during the year ended June 30, 2007, and totaled \$800.

Improvement Revolving: This fund is used to record revenues and expenses for major Construction projects. The major sources of revenue include State of Michigan Grants, Transfers from other funds, and donations from Private agencies. Two recent projects are major reconstruction of Wilcox and a skateboard / ice skating park. The total Fund Equity of the Improvement Revolving fund increased by \$46,315 during the year ended June 30, 2007, and totaled \$63,588.

Land Acquisition: The fund is used to record revenues and expenses for major Construction projects. The major sources of revenue include State of Michigan Grants, Transfers from other funds, and donations from Private agencies. Two recent projects are a Medical Center project and an Airport Expansion project. The total Fund Equity of the Land Acquisition fund decreased by \$9,328 during the year ended June 30, 2007, and totaled \$50,108.

Water Fund: This fund is used to record revenues and expenses for the City water system. The revenues come from user charges and the expenses are incurred for operation and maintenance. The net assets for the Water fund decreased by \$16,672 during the year ended June 30, 2007, and totaled \$590,309.

Motor Pool Fund: This fund is used to record the operation of the Department of Public Works and Police vehicles and equipment. The primary source of revenue comes from equipment rental fees charged to other funds of the City. The primary expenses are accrued from the operation and maintenance of vehicles and equipment. The net assets for the Motor Pool fund decreased by \$5,884 during the year ended June 30, 2007, and totaled \$86,586.

Downtown Development Authority: This component unit is used to record the activities and projects of the DDA. Revenues are from the TIFA (Tax Increment Financing Agreement) from capture of increased tax revenues within the DDA boundary from the City of White Cloud, Newaygo County, and the White Cloud Library. The net assets for the DDA fund increased by \$41,745 during the year ended June 30, 2007, and totaled \$119,352.

Compensated Absences: This fund is used to administer vacation and sick leave balances. The revenues come from charges to other funds for fringe benefit costs. The expenses are the actual payments for fringe benefits. Other funds are also charged for accrued leave expense and payouts of Sick and Vacation benefits when an employee leaves are paid from this fund. This was a new fund in fiscal year 2006 / 2007. In prior years each fund accounted for its share of the accrued leave balances. The net assets for the Compensated Absences fund for the year ending June 30, 2007, totaled \$11,045.

### **Capital Assets**

The net value of the governmental activities capital assets for the year decreased \$23,748 and totaled \$3,422,087.

The Net value of the business-type activities capital assets for the year decreased \$1,531 and totaled \$1,167,548.

### **Long-Term Debt Activity**

The balance of installment debt of the governmental activities for the year decreased \$20,728 and totaled 422,279.

The balance of installment debt of the business-type activities for the year decreased \$19,500 and totaled 690,000.

### **Contacting the City's Management**

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the City's finances and to demonstrate the City's accountability for the revenues it receives. If you have any questions concerning this report please contact Robert Sullivan, City Manager by calling (231) 689-1194 during the hours of 8 am to 5 pm, Monday through Friday.

## **BASIC FINANCIAL STATEMENTS**

# CITY OF WHITE CLOUD

## Statement of Net Assets

June 30, 2007

	Primary Government			Component Unit
	Governmental	Business-type		Downtown
	Activities	Activities	Total	Development
				Authority
<b>Assets</b>				
Cash and investments	\$ 395,118	\$ 65,937	\$ 461,055	\$ 87,570
Accounts receivable	68,445	51,654	120,099	-
Inventory	-	5,034	5,034	-
Capital assets not being depreciated	3,131,500	-	3,131,500	28,840
Capital assets being depreciated, net	290,587	1,167,548	1,458,135	2,942
<b>Total assets</b>	<b>3,885,650</b>	<b>1,290,173</b>	<b>5,175,823</b>	<b>119,352</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	23,286	2,765	26,051	-
Long-term debt:				
Due within one year	42,451	27,537	69,988	-
Due in more than one year	413,174	669,562	1,082,736	-
<b>Total liabilities</b>	<b>478,911</b>	<b>699,864</b>	<b>1,178,775</b>	<b>-</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	3,012,425	470,449	3,482,874	2,942
Restricted for:				
Highways and streets	92,220	-	92,220	-
Debt service	800	-	800	-
Capital projects	113,696	-	113,696	-
Unrestricted	187,598	119,860	307,458	116,410
<b>Total net assets</b>	<b>\$ 3,406,739</b>	<b>\$ 590,309</b>	<b>\$ 3,997,048</b>	<b>\$ 119,352</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF WHITE CLOUD**  
**Statement of Activities**  
**For the Year Ended June 30, 2007**

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary government</b>					
Governmental activities:					
Legislative	\$ 7,034	\$ -	\$ -	\$ -	\$ (7,034)
General government	206,421	19,647	-	-	(186,774)
Public safety	181,882	4,511	693	-	(176,678)
Public works	251,501	33,382	106,875	92,754	(18,490)
Recreation and cultural	28,734	4,994	12,854	-	(10,886)
Community and economic development	18,936	1,215	13,765	-	(3,956)
Interest on long-term debt	1,955	-	-	-	(1,955)
Total governmental activities	696,463	63,749	134,187	92,754	(405,773)
Business-type activities:					
Water	188,790	168,979	-	-	(19,811)
Total primary government	<u>\$ 885,253</u>	<u>\$ 232,728</u>	<u>\$ 134,187</u>	<u>\$ 92,754</u>	<u>\$ (425,584)</u>
<b>Component unit</b>					
Downtown Development Authority	<u>\$ 75,027</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (75,027)</u>

(Continued)

The accompanying notes are an integral part of these financial statements.



**CITY OF WHITE CLOUD**  
**Statement of Activities (Concluded)**  
**For the Year Ended June 30, 2007**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Downtown Development Authority</b>
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (405,773)	\$ (19,811)	\$ (425,584)	\$ (75,027)
General revenues:				
Property taxes	285,338	-	285,338	96,572
Other governmental sources	156,528	-	156,528	-
Unrestricted investment earnings	24,663	3,139	27,802	5,644
Other	5,119	-	5,119	14,556
Total general revenues	471,648	3,139	474,787	116,772
Change in net assets	65,875	(16,672)	49,203	41,745
Net assets, beginning of year, as restated	3,340,864	606,981	3,947,845	77,607
<b>Net assets, end of year</b>	<u><u>\$ 3,406,739</u></u>	<u><u>\$ 590,309</u></u>	<u><u>\$ 3,997,048</u></u>	<u><u>\$ 119,352</u></u>

The accompanying notes are an integral part of these financial statements.

# CITY OF WHITE CLOUD

## Balance Sheet Governmental Funds June 30, 2007

	<b>General Fund</b>	<b>Major Streets</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Cash and investments	\$ 87,669	\$ 40,636	\$ 168,641	\$ 296,946
Due from other governments	48,949	13,506	5,990	68,445
<b>Total assets</b>	<u>\$ 136,618</u>	<u>\$ 54,142</u>	<u>\$ 174,631</u>	<u>\$ 365,391</u>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 7,135	\$ -	\$ 535	\$ 7,670
Accrued liabilities	11,305	941	927	13,173
<b>Total liabilities</b>	<u>18,440</u>	<u>941</u>	<u>1,462</u>	<u>20,843</u>
<b>Fund balances</b>				
Unreserved:				
Reported in nonmajor special revenue funds	-	-	58,673	58,673
Reported in nonmajor debt service fund	-	-	800	800
Reported in nonmajor capital project funds	-	-	113,696	113,696
Undesignated	118,178	53,201	-	171,379
<b>Total fund balances</b>	<u>118,178</u>	<u>53,201</u>	<u>173,169</u>	<u>344,548</u>
<b>Total liabilities and fund balances</b>	<u>\$ 136,618</u>	<u>\$ 54,142</u>	<u>\$ 174,631</u>	<u>\$ 365,391</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF WHITE CLOUD**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to the Net Assets of Governmental**  
**Activities on the Statement of Net Assets**  
**June 30, 2007**

Fund balances - total governmental funds	\$ 344,548
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets not being depreciated	3,131,500
Add - capital assets being depreciated, net	232,536

An internal service fund is used by management to charge the costs of certain activities, such as equipment usage, earned but unused sick and vacation time, and other centralized costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities.

Add - net assets of governmental activities accounted for in the internal service fund	97,631
--	--------

Certain liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - notes and loans payable	<u>(399,476)</u>
----------------------------------	------------------

Net assets of governmental activities	<u><u>\$ 3,406,739</u></u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF WHITE CLOUD**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

	<u>General Fund</u>	<u>Major Streets</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Taxes	\$ 285,338	\$ -	\$ -	\$ 285,338
Special assessments	-	2,419	5,936	8,355
Licenses and permits	1,115	-	-	1,115
Intergovernmental revenue:				
Local	5,900	-	88,583	94,483
State	157,221	82,261	33,679	273,161
Federal	-	-	10,493	10,493
Charges for services	18,399	-	8,131	26,530
Fines and forfeitures	5,416	-	-	5,416
Rentals	22,333	-	-	22,333
Interest	16,780	1,684	3,207	21,671
Other	3,008	44,523	1,111	48,642
	<u>515,510</u>	<u>130,887</u>	<u>151,140</u>	<u>797,537</u>
Total revenues				
<b>Expenditures</b>				
Current:				
Legislative	7,034	-	-	7,034
General government	159,659	-	13,621	173,280
Public safety	197,160	-	69	197,229
Public works	123,484	129,161	32,421	285,066
Recreation and cultural	22,419	-	1,974	24,393
Community and economic development	-	-	1,964	1,964
Debt service:				
Principal	-	-	9,328	9,328
Interest expense	-	-	200	200
Capital outlay	-	-	42,284	42,284
	<u>509,756</u>	<u>129,161</u>	<u>101,861</u>	<u>740,778</u>
Total expenditures				
Revenues over expenditures	<u>5,754</u>	<u>1,726</u>	<u>49,279</u>	<u>56,759</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	-	1,714	1,714
Transfers (out)	(1,714)	-	-	(1,714)
	<u>(1,714)</u>	<u>-</u>	<u>1,714</u>	<u>-</u>
Total other financing sources (uses)				
Net change in fund balances	4,040	1,726	50,993	56,759
Fund balances, beginning of year, as restated	114,138	51,475	122,176	287,789
<b>Fund balances, end of year</b>	<u>\$ 118,178</u>	<u>\$ 53,201</u>	<u>\$ 173,169</u>	<u>\$ 344,548</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF WHITE CLOUD**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2007**

Net change in fund balances - total governmental funds	\$ 56,759
--	-----------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	10,242
Deduct - depreciation expense	(15,815)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - net income from internal service funds	5,361
Add - principal payments on notes payable	9,328

Change in net assets of governmental activities	\$ 65,875
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The accompanying notes are an integral part of these financial statements.

**CITY OF WHITE CLOUD**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2006**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance With Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 282,000	\$ 282,000	\$ 285,338	\$ 3,338
Licenses and permits	2,000	2,000	1,115	(885)
Intergovernmental revenue:				
Local	2,000	4,900	5,900	1,000
State	168,700	168,700	157,221	(11,479)
Charges for services	11,750	11,750	18,399	6,649
Fines and forfeitures	7,150	7,150	5,416	(1,734)
Rentals	15,320	21,320	22,333	1,013
Interest	10,000	16,000	16,780	780
Other	3,900	3,900	3,008	(892)
	<u>502,820</u>	<u>517,720</u>	<u>515,510</u>	<u>(2,210)</u>
<b>Total revenues</b>				
<b>Expenditures</b>				
Legislative:				
City Council and Mayor	9,622	9,622	7,034	(2,588)
	<u>9,622</u>	<u>9,622</u>	<u>7,034</u>	<u>(2,588)</u>
General Government:				
Elections	2,700	2,700	2,118	(582)
Assessor	8,400	8,400	8,130	(270)
Attorney	2,000	2,000	420	(1,580)
Building and grounds	35,100	35,100	33,161	(1,939)
Manager and clerk	73,216	73,216	71,356	(1,860)
Board of review	1,000	1,000	1,205	205
Treasurer	26,149	26,149	25,257	(892)
Other	21,500	21,500	18,012	(3,488)
	<u>170,065</u>	<u>170,065</u>	<u>159,659</u>	<u>(10,406)</u>
<b>Total general government</b>				
Public safety:				
Police	158,146	158,146	159,982	1,836
Fire	24,000	24,000	23,206	(794)
Zoning	12,920	16,920	13,972	(2,948)
	<u>195,066</u>	<u>199,066</u>	<u>197,160</u>	<u>(1,906)</u>
<b>Total public safety</b>				
Public works:				
Department of public works	114,031	122,031	120,570	(1,461)
Dam	200	200	310	110
Airport	3,000	3,000	2,604	(396)
	<u>117,231</u>	<u>125,231</u>	<u>123,484</u>	<u>(1,747)</u>
<b>Total public works</b>				

(Continued)

**CITY OF WHITE CLOUD**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual (Concluded)**  
**For the Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Expenditures (concluded)</b>				
Recreation and cultural:				
Parks and recreation	\$ 18,675	\$ 25,575	\$ 22,419	\$ (3,156)
Total expenditures	<u>510,659</u>	<u>529,559</u>	<u>509,756</u>	<u>(19,803)</u>
Revenue over (under) expenditures	(7,839)	(11,839)	5,754	17,593
<b>Other financing sources (uses)</b>				
Transfers (out)	<u>-</u>	<u>(1,714)</u>	<u>(1,714)</u>	<u>-</u>
Net change in fund balances	(7,839)	(13,553)	4,040	17,593
Fund balances, beginning of year, as restated	<u>114,138</u>	<u>114,138</u>	<u>114,138</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u><u>\$ 106,299</u></u>	<u><u>\$ 100,585</u></u>	<u><u>\$ 118,178</u></u>	<u><u>\$ 17,593</u></u>

(Concluded)

The accompanying notes are an integral part of these financial statements.

**CITY OF WHITE CLOUD**  
**Major Streets Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues</b>				
Special assessments	\$ 1,962	\$ 1,962	\$ 2,419	\$ 457
Intergovernmental revenue:				
State	87,000	87,000	82,261	(4,739)
Interest	500	500	1,684	1,184
Other	<u>50,000</u>	<u>50,000</u>	<u>44,523</u>	<u>(5,477)</u>
Total revenues	139,462	139,462	130,887	(8,575)
<b>Expenditures</b>				
Public works	<u>139,462</u>	<u>139,462</u>	<u>129,161</u>	<u>(10,301)</u>
Net change in fund balances	-	-	1,726	1,726
Fund balances, beginning of year	<u>51,475</u>	<u>51,475</u>	<u>51,475</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u><u>\$ 51,475</u></u>	<u><u>\$ 51,475</u></u>	<u><u>\$ 53,201</u></u>	<u><u>\$ 1,726</u></u>

The accompanying notes are an integral part of these financial statements.



# CITY OF WHITE CLOUD

## Statement of Net Assets

### Proprietary Funds

June 30, 2007

	<b>Business-type Activities</b>	<b>Governmental Activities</b>
	<b>Water Enterprise Fund</b>	<b>Internal Service Funds</b>
<b>Assets</b>		
Current assets:		
Cash and investments	\$ 65,937	\$ 98,172
Accounts receivable	51,654	-
Inventory	5,034	-
	<hr/>	<hr/>
Total current assets	122,625	98,172
Non-current assets:		
Capital assets being depreciated, net	1,167,548	58,051
	<hr/>	<hr/>
<b>Total assets</b>	<hr/> <b>1,290,173</b>	<hr/> <b>156,223</b>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	787	1,857
Accrued liabilities	1,978	586
Current portion of long-term debt	27,537	24,451
	<hr/>	<hr/>
Total current liabilities	30,302	26,894
Long-term liabilities:		
Compensated absences	4,062	19,081
Notes payable, net of current portion	665,500	12,617
	<hr/>	<hr/>
Total long-term liabilities	669,562	31,698
	<hr/>	<hr/>
<b>Total liabilities</b>	<hr/> <b>699,864</b>	<hr/> <b>58,592</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	474,511	20,983
Unrestricted	115,798	76,648
	<hr/>	<hr/>
<b>Total net assets</b>	<hr/> <b>\$ 590,309</b>	<hr/> <b>\$ 97,631</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF WHITE CLOUD**  
**Statement of Revenues, Expenses and**  
**Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**

	<b>Business-type Activities</b>	<b>Governmental Activities</b>
	<b>Water Enterprise Fund</b>	<b>Internal Service Funds</b>
<b>Operating revenues</b>		
Charges for services	\$ 168,204	\$ 147,181
Other	775	-
	<hr/>	<hr/>
Total operating revenues	168,979	147,181
	<hr/>	<hr/>
<b>Operating expenses</b>		
Personnel services	71,279	75,536
Professional and contractual services	7,554	-
Materials and supplies	2,428	18,703
Utilities	11,918	-
Repairs and maintenance	2,661	24,518
Insurance and bonds	4,373	875
Equipment rental	11,000	-
Depreciation	60,070	23,425
Miscellaneous	13	-
	<hr/>	<hr/>
Total operating expenses	171,296	143,057
	<hr/>	<hr/>
Operating income (loss)	(2,317)	4,124
	<hr/>	<hr/>
<b>Nonoperating revenues (expenses)</b>		
Interest income	3,139	2,992
Interest expense	(17,494)	(1,755)
	<hr/>	<hr/>
Total non-operating revenues (expenses)	(14,355)	1,237
	<hr/>	<hr/>
Change in net assets	(16,672)	5,361
	<hr/>	<hr/>
Net assets, beginning of year, as restated	606,981	92,270
	<hr/>	<hr/>
<b>Net assets, end of year</b>	<u>\$ 590,309</u>	<u>\$ 97,631</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF WHITE CLOUD**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2007**

	<b>Business-type Activities</b>	<b>Governmental Activities</b>
	<b>Water Enterprise Fund</b>	<b>Internal Service Funds</b>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 172,271	\$ -
Cash received from other funds	-	147,181
Cash payments to suppliers for goods and services	(39,777)	(42,239)
Cash payments to employees for services	(70,804)	(41,604)
	<u>61,690</u>	<u>63,338</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisitions of capital assets	(58,539)	(5,250)
Principal paid on long-term debt	(19,500)	(11,400)
Interest and fiscal charges	(17,494)	(1,755)
	<u>(95,533)</u>	<u>(18,405)</u>
<b>Cash flows from investing activities</b>		
Interest income	<u>3,139</u>	<u>2,992</u>
	(30,704)	47,925
Cash and investments, beginning of year	<u>96,641</u>	<u>50,247</u>
<b>Cash and investments, end of year</b>	<u><u>\$ 65,937</u></u>	<u><u>\$ 98,172</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income (loss)	\$ (2,317)	\$ 4,124
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	60,070	23,425
Changes in assets and liabilities which provided (used) cash:		
Accounts receivable	3,292	-
Accounts payable	(1,808)	1,857
Accrued liabilities	1,978	586
Compensated absences	475	33,346
	<u>475</u>	<u>33,346</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 61,690</u></u>	<u><u>\$ 63,338</u></u>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

# **CITY OF WHITE CLOUD**

## **NOTES TO FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED JUNE 30, 2007**

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#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of White Cloud (the “City”) was incorporated in 1851, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, water services, recreation and cultural, public improvements, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles. The following is a summary of the significant policies:

##### ***The Reporting Entity***

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The City has no blended component units. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

##### ***Discretely Presented Component Unit***

Downtown Development Authority – The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, to encourage historical preservation, and to promote economic growth within the downtown district. The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Complete financial statements for the component unit are not separately prepared.

##### ***Joint Ventures***

The City and the Township of Sherman jointly form the White Cloud Sherman Utility Authority to provide sewer services for the two entities. The City has guaranteed 26.4% of the sewer system bonded debt. The outstanding bonded debt at June 30, 2007 is \$692,500. The City's potential responsibility is \$182,200. This amount has not been recorded as a liability of the City.

The City and the Townships of Everett, Lincoln, Sherman and Wilcox jointly operate the White Cloud Area Fire Department to provide fire protection services for the five entities. For the fiscal year ended March 31, 2007, the City provided \$23,306 to the Fire District which represented 12.2% of its operating revenue. As of March 31, 2007, the Fire District had no long-term debt.

The joint ventures of the City are not considered a part of the reporting entity of the City. Separate financial statements of the joint ventures may be obtained separately from them.

# CITY OF WHITE CLOUD

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

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### ***Government-Wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the delinquent real property taxes are paid by the County to other units of government and the County is responsible for collecting any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for reimbursement based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and accrued employee benefit expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

# CITY OF WHITE CLOUD

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2007

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The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Streets Fund* is used to account for construction, maintenance, and repair of the City's major streets.

The City reports the following major proprietary fund:

*Water Fund* – This fund is used to account for the cost of providing water to City residents and collecting and treating wastewater. Revenues are chiefly from service charges to customers. These revenues are also used to pay principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for revenue from specific revenue sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Internal Service Funds* are used to account for major machinery and equipment purchases, maintenance, and to account for compensated absences.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

# **CITY OF WHITE CLOUD**

## **NOTES TO FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED JUNE 30, 2007**

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#### ***Budgets and Budgetary Accounting***

Budgets are adopted for general and special revenue funds on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds.
5. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2007. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendments to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
6. Budgets for expenditures are adopted at the functional level.
7. Budgeted amounts are as originally adopted, or as amended by the City Council.

#### ***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

#### ***Receivables***

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. All receivables were determined by management to be collectible at year end.

#### ***Inventory***

Inventory is valued at the lower of cost or market, on the first-in first-out basis.

#### ***Prepaid Items***

The City incurred expenses prior to year-end for services that will be performed in the next fiscal year. In these situations, the City records an asset to reflect the investment in future services.



# CITY OF WHITE CLOUD

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

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### *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) of the primary government, as well as the component units, is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and building improvements	20 - 30
Machinery, equipment, and vehicles	3 - 10

### *Long-term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### *Property Taxes*

City property taxes are attached as an enforceable lien on property as of July 1st. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes and taxes billed on behalf of other districts within the City limits. Real property taxes not collected are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

# CITY OF WHITE CLOUD

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

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### *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### *Compensated Absences*

It is the City's policy to permit employees to accumulate earned unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds as it becomes due for payments (when the time is used or employment is terminated).

### *Interfund Transactions*

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the City.

### *Risk Management*

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

## 2. DEPOSITS AND INVESTMENTS

The captions on the government-wide and fund statements relating to cash and cash equivalents and deposits are as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Component Unit</b>	<b>Total</b>
Cash and investments	<b>\$ 395,118</b>	<b>\$ 65,937</b>	<b>\$ 87,570</b>	<b>\$ 548,625</b>

# CITY OF WHITE CLOUD

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2007

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Deposits and investments consist of the following at June 30, 2007:

Checking and savings accounts	\$ 147,511
Certificates of deposit (due within one year)	206,854
Petty cash	933
Investments	<u>193,327</u>
<b>Total</b>	<b><u>\$548,625</u></b>

These deposits are in three (3) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at cost. Interest is recorded when earned.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$155,482 of the City's bank balance of \$355,482 was exposed to custodial credit risk because it was uninsured and uncollateralized.

#### **Investments**

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
MBIA Class Fund	N/A	<u>\$193,327</u>	AAA/V1+

#### ***Investment Risk***

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified under "statutory authority" below. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment identified above has no maturity date.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in "statutory authority" below. The investment policy does not have specific limits in excess of state law on investment credit risk. The credit rating on the City's investment is identified above.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City minimizes custodial credit risk by limiting investments to the types of securities listed in the City's investment policy and by pre-qualifying the financial institutions, broker/dealers, intermediaries, set forth in accordance with the City's investment policy. Of the above mutual fund investments the District's custodial credit risk exposure can not be determined because the mutual funds do not consist of specifically identifiable securities.

# CITY OF WHITE CLOUD

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2007

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk. The City minimizes concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All investments held at year-end are reported above.

#### ***Statutory Authority***

State statutes authorize the City to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

### **3. CAPITAL ASSETS**

Changes in capital assets for the year ending June 30, 2007, are as follows:

	<b>Balance July 1, 2006</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Balance June 30, 2007</b>
<b>Governmental activities</b>				
Capital assets, not being depreciated:				
Land	\$ 3,131,500	\$ -	\$ -	\$ 3,131,500
Capital assets, being depreciated:				
Buildings and improvements	498,734	10,242	-	508,976
Machinery, vehicles and equipment	410,644	5,250	-	415,894
	909,378	15,492	-	924,870
Less accumulated depreciation for:				
Buildings and improvements	266,876	14,141	-	281,017
Machinery, vehicles and equipment	328,167	25,099	-	353,266
Total accumulated depreciation	595,043	39,240	-	634,283
Net capital assets, being depreciated	314,335	(23,748)	-	290,587
<b>Net capital assets - governmental activities</b>	<b>\$ 3,445,835</b>	<b>\$ (23,748)</b>	<b>\$ -</b>	<b>\$ 3,422,087</b>

# CITY OF WHITE CLOUD

## NOTES TO FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2007</u>
<b>Business-type activities</b>				
Capital assets being depreciated:				
Water system	\$ 2,138,696	\$ 58,539	\$ -	\$ 2,197,235
Less accumulated depreciation for:				
Water system	969,617	60,070	-	1,029,687
<b>Net capital assets – business-type activities</b>	<b><u>\$ 1,169,079</u></b>	<b><u>\$ (1,531)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,167,548</u></b>
<b>Downtown Development Authority</b>				
Capital assets, not being depreciated:				
Land	\$ 28,840	\$ -	\$ -	\$ 28,840
Capital assets, being depreciated:				
Machinery, vehicles and equipment	4,905	-	-	4,905
Less accumulated depreciation for:				
Machinery, vehicles and equipment	(1,472)	(491)	-	(1,963)
Total capital assets being depreciated, net	3,433	(491)	-	2,942
<b>Net capital assets – Downtown Development Authority</b>	<b><u>\$ 32,273</u></b>	<b><u>\$ (491)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 31,782</u></b>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 5,474
Public works	6,000
Recreation and cultural	4,341
Internal service fund	<u>23,425</u>
Total depreciation expense – governmental activities	<u><u>\$39,240</u></u>
Business-type activities:	
Water	<u><u>\$60,070</u></u>

**CITY OF WHITE CLOUD**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2007**

**4. LONG-TERM DEBT**

The following is a summary of debt transactions of the City for the year ended June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Loan payable – MEDC due in quarterly installments of \$8,261 through 2019 with interest at 6.00%	\$ 268,804	\$ -	\$ -	\$ 268,804	\$ -
Loan payable – MEDC due in quarterly installments of \$4,672 to \$18,000 through 2015 with interest at 0%	140,000	-	9,328	130,672	18,000
Note payable – 2002 Chevrolet, due in quarterly installments of \$1,849 through 2007 with interest at 6.35%	1,820	-	1,820	-	-
Note payable – 2005 Chevrolet, due in quarterly installments of \$1,273 through 2010 with interest at 8.15%	12,431	-	4,205	8,226	4,558
Note payable – 2006 Ford, due in quarterly installments of \$1,553 through 2009 with interest at 4.60%	19,952	-	5,375	14,577	5,628
Subtotal installment debt	443,007	-	20,728	422,279	28,186
Compensated absences	29,879	18,604	15,137	33,346	14,265
<b>Total governmental activities</b>	<b>\$ 472,886</b>	<b>\$ 18,604</b>	<b>\$ 35,865</b>	<b>\$ 455,625</b>	<b>\$42,451</b>
<b>Business-type activities</b>					
1992 revenue bonds payable in annual installments of \$19,500 to \$40,000 through 2029 with interest at 2.50%	\$ 709,500	\$ -	\$ 19,500	\$ 690,000	\$ 24,500
Compensated absences	6,624	3,421	2,946	7,099	3,037
<b>Total business-type activities</b>	<b>\$ 716,124</b>	<b>\$ 3,421</b>	<b>\$ 22,446</b>	<b>\$ 697,099</b>	<b>\$27,537</b>

# CITY OF WHITE CLOUD

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2007

The annual requirements, excluding compensated absences, to maturity on the total long-term obligations outstanding at June 30, 2007 are as follows:

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 28,186	\$ 1,117	\$ 24,500	\$ 16,944
2009	44,859	16,218	24,500	16,331
2010	39,409	14,745	24,500	15,719
2011	37,482	13,564	24,500	15,106
2012	38,677	12,368	24,500	14,494
2013-2017	164,723	41,181	127,500	63,219
2018-2022	68,943	5,284	150,000	45,625
2023-2027	-	-	175,000	25,312
2028-2029	-	-	115,000	4,438
	<u>\$ 422,279</u>	<u>\$ 104,477</u>	<u>\$ 690,000</u>	<u>\$ 217,188</u>

## 5. INTERFUND TRANSFERS

The composition of transfers for the year ended June 30, 2007, is as follows:

	Transfers In	Transfers Out
Governmental Funds:		
General Fund	\$ -	\$ 1,714
Nonmajor Funds	1,714	-
<b>Total</b>	<u><b>\$ 1,714</b></u>	<u><b>\$ 1,714</b></u>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

## 6. DEFINED BENEFIT PENSION PLAN

### *Municipal Employees Retirement System of Michigan*

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; the current rate is 14.74% of annual covered payroll. Employee contributions are not required. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adoption by the City.

# CITY OF WHITE CLOUD

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2007

For the year ended June 30, 2007 the City's annual pension cost for MERS of \$33,658 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment of 20% of the difference between assumed earnings and market value (5 year seniority) to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 30 years.

#### Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$26,430	100%	\$ -
2005	28,083	100%	-
2006	33,658	100%	-

#### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/04	\$309,414	\$455,709	\$146,295	68%	\$171,414	85%
12/31/05	348,476	517,020	168,544	67%	180,515	93%
12/31/06	400,757	554,680	153,923	72%	227,455	68%

#### 7. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all City employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the City's financial statements.



# **CITY OF WHITE CLOUD**

## **NOTES TO FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED JUNE 30, 2007**

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#### **8. RELATED PARTY TRANSACTIONS**

During the year, the City incurred expenditures of approximately \$25,000 for equipment rentals in the Department of Public Works under a contract with Barnhard Construction, which is owned by the City's Mayor. At year end the City owed Barnhard Construction \$750 for these services. The rental rates paid to Barnhard Construction were in compliance with Schedule C of Act 51, as established by the Michigan Department of Transportation.

#### **9. PRIOR PERIOD ADJUSTMENTS**

Beginning fund balances in the General and Cemetery Funds were decreased by \$5,606 and \$38, respectively to properly accrue expenditures back to fiscal year 2006. Beginning net assets in the Water Fund were also decreased by \$622 to account for expenses that were incurred in fiscal year 2006. In addition to the two governmental fund restatements, beginning net assets of governmental activities were also increased by \$121,500 to account for land not recorded on the City's capital asset schedule in previous years. These restatements resulted in a net increase to beginning net assets of governmental activities of \$115,856.

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**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

## **GENERAL FUND**

**CITY OF WHITE CLOUD**  
**General Fund**  
**Detailed Schedule of Expenditures**  
**Budget and Actual**  
**For the Year Ended June 30, 2007**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance With Final Budget</b>
<b>Legislative</b>				
City Council and Mayor:				
Salaries and wages	\$ 5,250	\$ 5,250	\$ 5,250	\$ -
Social security	161	161	195	34
Workers' compensation	11	11	5	(6)
Printing and publishing	2,500	2,500	323	(2,177)
Dues	1,700	1,700	1,261	(439)
Total legislative	9,622	9,622	7,034	(2,588)
<b>General Government</b>				
Elections:				
Salaries and wages	1,000	1,000	899	(101)
Supplies	1,100	1,100	1,101	1
Printing and publishing	500	500	118	(382)
Miscellaneous	100	100	-	(100)
Total elections	2,700	2,700	2,118	(582)
Assessor:				
Contracted services	1,025	1,025	875	(150)
Supplies	350	350	78	(272)
Miscellaneous	7,025	7,025	7,177	152
Total assessor	8,400	8,400	8,130	(270)
Attorney	2,000	2,000	420	(1,580)
Building and grounds:				
Telephone	8,000	8,000	7,930	(70)
Professional services	10,200	10,200	12,411	2,211
Supplies	5,000	5,000	3,307	(1,693)
Postage	1,500	1,500	2,288	788
Utilities	8,000	8,000	6,599	(1,401)
Repairs and maintenance	1,800	1,800	543	(1,257)
Miscellaneous	600	600	83	(517)
Total building and grounds	35,100	35,100	33,161	(1,939)
Manager and clerk:				
Salaries and wages	58,932	58,932	57,712	(1,220)
Social security	4,509	4,509	4,426	(83)
Health insurance	5,342	5,342	5,463	121
Retirement	3,189	3,189	3,113	(76)
Life insurance	352	352	348	(4)
Workers' compensation	242	242	234	(8)
Miscellaneous	650	650	60	(590)
Total manager and clerk	73,216	73,216	71,356	(1,860)
Board of review:				
Salaries and wages	800	800	945	145
Training	-	-	35	35
Printing and publishing	200	200	225	25
Total board of review	1,000	1,000	1,205	205

**CITY OF WHITE CLOUD**  
**General Fund**  
**Detailed Schedule of Expenditures**  
**Budget and Actual (Continued)**  
**For the Year Ended June 30, 2007**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance With Final Budget</b>
<b>General government (continued):</b>				
Treasurer:				
Salaries and wages	\$ 17,204	\$ 17,204	\$ 16,653	\$ (551)
Social security	1,317	1,317	1,264	(53)
Health insurance	3,415	3,415	3,498	83
Retirement	2,121	2,121	2,061	(60)
Life insurance	96	96	88	(8)
Dues and subscriptions	250	250	35	(215)
Supplies	600	600	-	(600)
Professional services	750	750	1,279	529
Miscellaneous	396	396	379	(17)
Total treasurer	26,149	26,149	25,257	(892)
Other:				
Audit	2,500	2,500	2,500	-
Liability insurance	14,000	14,000	12,246	(1,754)
City hall expenses	2,000	2,000	266	(1,734)
Economic development	3,000	3,000	3,000	-
Total other	21,500	21,500	18,012	(3,488)
Total general government	170,065	170,065	159,659	(10,406)
<b>Public safety:</b>				
Police:				
Salaries and wages	93,568	93,568	95,161	1,593
Social security	7,338	7,338	7,349	11
Health insurance	12,279	12,279	12,264	(15)
Retirement	12,137	12,137	12,108	(29)
Life insurance	432	432	439	7
Workers' compensation	2,097	2,097	2,103	6
Office supplies	2,200	2,200	1,624	(576)
Uniform expense	1,200	1,200	410	(790)
Professional services	2,500	2,500	4,387	1,887
Gas and oil	3,300	-	(535)	(535)
Wrecker fees	2,000	2,000	2,065	65
Liability insurance	2,550	2,550	2,230	(320)
Repairs and maintenance	2,000	-	-	-
Miscellaneous	2,445	2,445	2,995	550
Training and memberships	1,000	1,000	982	(18)
Equipment rental	11,100	16,400	16,400	-
Total police	158,146	158,146	159,982	1,836
Fire	24,000	24,000	23,206	(794)

(Continued)

**CITY OF WHITE CLOUD**  
**General Fund**  
**Detailed Schedule of Expenditures**  
**Budget and Actual (Concluded)**  
**For the Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Public safety (continued):</b>				
Zoning:				
Salaries and wages	\$ 8,183	\$ 8,183	\$ 8,582	\$ 399
Social security	671	671	672	1
Retirement	1,384	1,384	1,387	3
Miscellaneous	<u>2,682</u>	<u>6,682</u>	<u>3,331</u>	<u>(3,351)</u>
Total zoning	<u>12,920</u>	<u>16,920</u>	<u>13,972</u>	<u>(2,948)</u>
Total public safety	<u>195,066</u>	<u>199,066</u>	<u>197,160</u>	<u>(1,906)</u>
<b>Public works</b>				
Department of public works:				
Salaries and wages	46,543	46,543	47,238	695
Social security	3,561	3,561	3,678	117
Health insurance	8,547	8,547	8,878	331
Retirement	6,730	6,730	6,901	171
Life insurance	242	242	241	(1)
Operating supplies	4,000	4,000	6,974	2,974
Gas and oil	9,500	-	(663)	(663)
Liability insurance	1,000	1,000	875	(125)
Utilities	5,000	5,000	6,953	1,953
Street lighting	22,500	30,500	24,926	(5,574)
Repairs and maintenance	2,500	800	592	(208)
Miscellaneous	<u>3,908</u>	<u>15,108</u>	<u>13,977</u>	<u>(1,131)</u>
Total department of public works	<u>114,031</u>	<u>122,031</u>	<u>120,570</u>	<u>(1,461)</u>
Dam	<u>200</u>	<u>200</u>	<u>310</u>	<u>110</u>
Airport	<u>3,000</u>	<u>3,000</u>	<u>2,604</u>	<u>(396)</u>
Total public works	<u>117,231</u>	<u>125,231</u>	<u>123,484</u>	<u>(1,747)</u>
<b>Recreation and cultural</b>				
Parks and recreation:				
Salaries and wages	5,716	5,716	6,855	1,139
Social security	438	438	522	84
Repairs and maintenance	2,000	7,000	4,898	(2,102)
Utilities	4,600	4,600	6,163	1,563
Operating supplies	3,000	3,000	1,028	(1,972)
Liability insurance	600	600	525	(75)
Miscellaneous	<u>2,321</u>	<u>4,221</u>	<u>2,428</u>	<u>(1,793)</u>
Total recreation and cultural	<u>18,675</u>	<u>25,575</u>	<u>22,419</u>	<u>(3,156)</u>
Total expenditures	<u>\$ 510,659</u>	<u>\$ 529,559</u>	<u>\$ 509,756</u>	<u>\$ (19,803)</u>

(Concluded)

## **NONMAJOR GOVERNMENTAL FUNDS**

**CITY OF WHITE CLOUD**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2007**

	<b>Special Revenue</b>			
	<b>Local Streets</b>	<b>Cemetery</b>	<b>Drug Enforcement</b>	<b>Economic Development</b>
<b>Assets</b>				
Cash and investments	\$ 33,959	\$ 4,492	\$ 2,808	\$ 10,801
Due from other governments	5,530	-	-	-
<b>Total assets</b>	<b>\$ 39,489</b>	<b>\$ 4,492</b>	<b>\$ 2,808</b>	<b>\$ 10,801</b>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 19	\$ -	\$ -
Accrued liabilities	470	457	-	-
<b>Total liabilities</b>	470	476	-	-
<b>Fund balances</b>				
Unreserved - undesignated	39,019	4,016	2,808	10,801
<b>Total liabilities and fund balances</b>	<b>\$ 39,489</b>	<b>\$ 4,492</b>	<b>\$ 2,808</b>	<b>\$ 10,801</b>



	Debt Service	Capital Projects		
Park	Local Development	Improvement Revolving	Land Acquisition	Totals
\$ 2,085	\$ 800	\$ 63,588	\$ 50,108	\$ 168,641
460	-	-	-	5,990
<u>\$ 2,545</u>	<u>\$ 800</u>	<u>\$ 63,588</u>	<u>\$ 50,108</u>	<u>\$ 174,631</u>
\$ 516	\$ -	\$ -	\$ -	\$ 535
-	-	-	-	927
516	-	-	-	1,462
2,029	800	63,588	50,108	173,169
<u>\$ 2,545</u>	<u>\$ 800</u>	<u>\$ 63,588</u>	<u>\$ 50,108</u>	<u>\$ 174,631</u>

**CITY OF WHITE CLOUD**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**June 30, 2007**

	<b>Special Revenue</b>			
	<b>Local Streets</b>	<b>Cemetery</b>	<b>Drug Enforcement</b>	<b>Economic Development</b>
<b>Revenues</b>				
Special assessments	\$ 5,936	\$ -	\$ -	\$ -
Intergovernmental:				
State	33,679	-	-	-
Local	-	-	-	12,765
Federal	-	-	-	-
Charges for services	-	4,400	-	-
Interest	2,358	617	52	-
Other	-	-	1,111	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	41,973	5,017	1,163	12,765
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Expenditures</b>				
Current:				
General government	-	13,621	-	-
Public safety	-	-	69	-
Public works	32,421	-	-	-
Recreation and cultural	-	-	-	-
Community and economic development	-	-	-	1,964
Debt service:				
Principal	-	-	-	-
Interest expense	-	-	-	-
Capital outlay	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	32,421	13,621	69	1,964
	<hr/>	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	9,552	(8,604)	1,094	10,801
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Other financing sources (uses)</b>				
Transfers in	-	-	1,714	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances	9,552	(8,604)	2,808	10,801
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year, as restated	29,467	12,620	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Fund balances, end of year</b>	<u>\$ 39,019</u>	<u>\$ 4,016</u>	<u>\$ 2,808</u>	<u>\$ 10,801</u>

	Debt Service	Capital Projects		
	Local	Improvement	Land	
Park	Development	Revolving	Acquisition	Totals
\$ -	\$ -	\$ -	\$ -	\$ 5,936
-	-	-	-	33,679
7,954	-	54,800	13,064	88,583
-	-	10,493	-	10,493
3,731	-	-	-	8,131
180	-	-	-	3,207
-	-	-	-	1,111
11,865	-	65,293	13,064	151,140
-	-	-	-	13,621
-	-	-	-	69
-	-	-	-	32,421
1,974	-	-	-	1,974
-	-	-	-	1,964
-	-	-	9,328	9,328
-	200	-	-	200
10,242	-	18,978	13,064	42,284
12,216	200	18,978	22,392	101,861
(351)	(200)	46,315	(9,328)	49,279
-	-	-	-	1,714
(351)	(200)	46,315	(9,328)	50,993
2,380	1,000	17,273	59,436	122,176
\$ 2,029	\$ 800	\$ 63,588	\$ 50,108	\$ 173,169

# CITY OF WHITE CLOUD

## Statement of Net Assets

### Internal Service Funds

June 30, 2007

	<b>Compensated Absences Fund</b>	<b>Motor Pool Fund</b>	<b>Total</b>
<b>Assets</b>			
Current assets:			
Cash and investments	\$ 44,977	\$ 53,195	\$ 98,172
Non-current assets:			
Capital assets being depreciated, net	-	58,051	58,051
<b>Total assets</b>	<u>44,977</u>	<u>111,246</u>	<u>156,223</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	-	1,857	1,857
Accrued liabilities	586	-	586
Current portion of long-term debt	14,265	10,186	24,451
<b>Total current liabilities</b>	<u>14,851</u>	<u>12,043</u>	<u>26,894</u>
Long-term liabilities:			
Compensated absences	19,081	-	19,081
Notes payable, net of current portion	-	12,617	12,617
<b>Total long-term liabilities</b>	<u>19,081</u>	<u>12,617</u>	<u>31,698</u>
<b>Total liabilities</b>	<u>33,932</u>	<u>24,660</u>	<u>58,592</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	-	47,865	47,865
Unrestricted	11,045	38,721	49,766
<b>Total net assets</b>	<u><u>\$ 11,045</u></u>	<u><u>\$ 86,586</u></u>	<u><u>\$ 97,631</u></u>

**CITY OF WHITE CLOUD**  
**Statement of Revenues, Expenses and**  
**Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2007**

	<b>Compensated Absences Fund</b>	<b>Motor Pool Fund</b>	<b>Total</b>
<b>Operating revenues</b>			
Charges for services	\$ 86,581	\$ 60,600	\$ 147,181
<b>Operating expenses</b>			
Personnel services	75,536	-	75,536
Materials and supplies	-	18,703	18,703
Repairs and maintenance	-	24,518	24,518
Insurance and bonds	-	875	875
Depreciation	-	23,425	23,425
Total operating expenses	75,536	67,521	143,057
Operating income (loss)	11,045	(6,921)	4,124
<b>Nonoperating revenues (expenses)</b>			
Interest income	-	2,992	2,992
Interest expense	-	(1,755)	(1,755)
Total non-operating revenues (expenses)	-	1,237	1,237
Change in net assets	11,045	(5,684)	5,361
Net assets, beginning of year	-	92,270	92,270
<b>Net assets, end of year</b>	<b>\$ 11,045</b>	<b>\$ 86,586</b>	<b>\$ 97,631</b>

**CITY OF WHITE CLOUD**  
**Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2007**

	<b>Compensated Absences Fund</b>	<b>Motor Pool Fund</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Cash received from other funds	\$ 86,581	\$ 60,600	\$ 147,181
Cash payments to suppliers for goods and services	-	(42,239)	(42,239)
Cash payments to employees for services	(41,604)	-	(41,604)
	<u>44,977</u>	<u>18,361</u>	<u>63,338</u>
Net cash provided by operating activities			
	<u>44,977</u>	<u>18,361</u>	<u>63,338</u>
<b>Cash flows from capital and related financing activities</b>			
Acquisitions of capital assets	-	(5,250)	(5,250)
Principal paid on long-term debt	-	(11,400)	(11,400)
Interest and fiscal charges	-	(1,755)	(1,755)
	<u>-</u>	<u>(18,405)</u>	<u>(18,405)</u>
Net cash used in capital and related financing activities			
	<u>-</u>	<u>(18,405)</u>	<u>(18,405)</u>
<b>Cash flows from investing activities</b>			
Interest income	-	2,992	2,992
	<u>-</u>	<u>2,992</u>	<u>2,992</u>
Net increase in cash and pooled investments	44,977	2,948	47,925
Cash and investments, beginning of year	-	50,247	50,247
	<u>-</u>	<u>50,247</u>	<u>50,247</u>
<b>Cash and investments, end of year</b>	<u>\$ 44,977</u>	<u>\$ 53,195</u>	<u>\$ 98,172</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
Operating income (loss)	\$ 11,045	\$ (6,921)	\$ 4,124
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	-	23,425	23,425
Changes in assets and liabilities which provided (used) cash:			
Accounts payable	-	1,857	1,857
Accrued liabilities	586	-	586
Compensated absences	33,346	-	33,346
	<u>33,346</u>	<u>-</u>	<u>33,346</u>
Net cash provided by operating activities	<u>\$ 44,977</u>	<u>\$ 18,361</u>	<u>\$ 63,338</u>

## **COMPONENT UNIT**

**CITY OF WHITE CLOUD**  
**Downtown Development Authority**  
**Balance Sheet / Statement of Net Assets**  
**June 30, 2007**

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Current assets:			
Cash and investments	\$ 87,570	\$ -	\$ 87,570
Noncurrent assets:			
Capital assets not being depreciated	-	28,840	28,840
Capital assets being depreciated, net	-	2,942	2,942
Total noncurrent assets	-	31,782	31,782
<b>Total assets</b>	<u>\$ 87,570</u>	<u>31,782</u>	<u>119,352</u>
<b>Liabilities</b>			
Accounts payable	\$ -	-	-
<b>Fund balance</b>			
Unreserved - undesignated	87,570	(87,570)	-
<b>Total liabilities and fund balance</b>	<u>\$ 87,570</u>		
<b>Net assets</b>			
Invested in capital assets		31,782	31,782
Unrestricted		87,570	87,570
<b>Total net assets</b>		<u>\$ 119,352</u>	<u>\$ 119,352</u>



**CITY OF WHITE CLOUD**  
**Downtown Development Authority**  
**Statement of Activities and Revenues, Expenditures**  
**and Changes in Fund Balance**  
**For the Year Ended June 30, 2007**

	<b>Operating Fund</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Revenues</b>			
Taxes	\$ 96,572	\$ -	\$ 96,572
Interest	5,644	-	5,644
Other	14,556	-	14,556
	<hr/>	<hr/>	<hr/>
Total revenues	116,772	-	116,772
	<hr/>	<hr/>	<hr/>
<b>Expenditures/expenses</b>			
Transfer to primary government	59,209	-	59,209
Other	15,327	491	15,818
	<hr/>	<hr/>	<hr/>
Total expenditures/expenses	74,536	491	75,027
	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	42,236	(491)	41,745
	<hr/>	<hr/>	<hr/>
Net change in fund balance	42,236	(491)	
Changes in net assets		(491)	41,745
Fund balances/net assets, beginning of year	45,334	32,273	77,607
	<hr/>	<hr/>	<hr/>
<b>Fund balances/net assets, end of year</b>	<u>\$ 87,570</u>	<u>\$ 31,782</u>	<u>\$ 119,352</u>

## **INTERNAL CONTROL AND COMPLIANCE**



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

December 10, 2007

Honorable Mayor and  
Members of the City Council  
City of White Cloud, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of White Cloud, Michigan, as of and for the year ended June 30, 2007 which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of White Cloud, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

## **Finding 2007-1 – Preparation of Financial Statements in Accordance with GAAP**

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.
Cause:	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
Recommendation:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.
View of Responsible Officials:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

### **Finding 2007-2 – Independent Review of Journal Entries**

Criteria:	Management is responsible for establishing effective internal controls to safeguard the City's assets, and to prevent or detect misstatements to the financial statements. Journal entries, while an essential part of any accounting system, represent an opportunity to enter information into the City's records in a way that bypasses normal internal controls. Accordingly, the City should have a system in place to ensure that all journal entries and similar adjustments made to the City's accounting records are reviewed and approved by an appropriate member of management independent of the preparer.
Condition:	The City's policies and procedures in place during the fiscal year under audit did not require any independent review or approval of journal entries made by members of senior management.
Cause:	This condition is the result of staffing limitations, and management not initially recognizing the importance of establishing such controls.
Effect:	While we are not aware of any actual misstatements caused by this condition, the City was nevertheless exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected or prevented.
View of Responsible Officials:	The City now realizes the risk involved and will have the City Manager review and approve all Journal Entries. In addition, the City Council Budget Committee will review Journal Entries to determine which type of Journal Entries should be approved by the City Council.

### **Finding 2007-3 – Inventory Year End Valuation**

Criteria:	Management is responsible for establishing internal controls to safeguard the City's assets, and ensure proper reporting in accordance with GAAP. Part of this responsibility includes the periodic inspections and reconciliation of amounts held as inventory.
Condition:	The City has not updated the value of its inventory for several years. When an updated inventory value was requested during our audit, none was available to be provided.
Cause:	Management considered it unnecessary to take inventory annually or to make an attempt to estimate its value at year end. As management believes such amounts would not be material to the financial statements, inventory has been reflected in the financial statements at the same amount as it has been the last several years.

### **Finding 2007-3 – Inventory Year End Valuation (Continued)**

Effect:	As a result of this condition, the City was exposed to increased risk of misappropriation of assets and incorrect recording and valuation of inventory.
Recommendation:	We recommend that the City establish and adhere to a policy of having at least an annual inventory taken.
View of Responsible Officials:	The City management will at least have an annual inventory taken. In addition, the City Council Budget Committee will establish a policy on Inventory control and present it to the City Council for approval.

### **Finding 2007-4 – Segregation of Duties, Cash Receipts**

Criteria:	Cash receipts procedures should provide reasonable assurance that all cash collected is properly remitted to the City's finance office for deposit in the bank and inclusion in the accounting records.
Condition:	The City does not have proper segregation of process in place to prevent reasonable assurance that all cash that was collected is deposited in the bank.
Cause:	A single individual is responsible for counting the prior day's collections, balancing the cash drawer, completing the deposit slip, and depositing the money in the bank.
Effect:	As a result of this condition, the City was exposed to increased risk of misappropriation of assets.
Recommendation:	We recommend the City require two separate employees to perform this function. One employee should count the drawer and complete the deposit slip. The other employee should take the money and deposit slip to the bank for remittance.
View of Responsible Officials:	After discussing this with our auditors we have determined that our procedure of having our two employees alternate counting the drawer, completing the deposit slip and taking the money to the bank was not correct. We will have one employee counting the drawer and completing the deposit slip and the other taking the money to the bank. We will still alternate employees completing each task.

## **Finding 2007-5 – Material Audit Adjustments**

Criteria:	Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).
Condition:	During our audit, we identified and proposed several material adjustments (which were approved and posted by management) to adjust the City's general ledger to the appropriate balances. These adjustments included recording accounts payable, capital assets, long-term debt, and a material prior period adjustment to capitalize donated land.
Cause:	This condition was the result of various oversights by management in reconciling the general ledger and closing out the fiscal year.
Effect:	As a result of this condition, the City's accounting records were initially misstated by amounts material to the financial statements.
Recommendation:	We recommend that the City reconcile all general ledgers to subsidiary detail on a monthly basis in order to have a more accurate financial picture throughout the year.
View of Responsible Officials:	The prior audit firm provided adjusts for capital assets and long-term debt to the City and did not point out that the City should balance on a monthly basis. The City will attempt to balance them on a monthly basis and at least quarterly. The City did not consider the amounts to be significantly high enough to set up accounts payable identified by our current auditors. The City Budget Committee will review and recommend to the City Council a policy stating a minimum amount that will determine if the invoice is considered to set up accounts payable.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2007-5 to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of White Cloud, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that were reported to management of the City of White Cloud, Michigan in a separate letter dated December 10, 2007.

The City of White Cloud's responses to the findings identified in our audit are described above. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.





**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

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December 10, 2007

To the City Council of the  
City of White Cloud  
White Cloud, Michigan

We have audited the financial statements of the City of White Cloud for the year ended June 30, 2007, and have issued our report thereon dated December 10, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated June 22, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of White Cloud. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of White Cloud's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of White Cloud are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of White Cloud during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the valuation of inventory is based on the results of a physical inventory count taken several years ago, and management's belief that any changes to this balance since that time would be immaterial to the financial statements.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of White Cloud's financial reporting process (that is, cause future financial statements to be materially misstated). As described in the accompanying financial statements, we proposed various journal entries that were recorded by management, which in our judgment, had a significant effect on the City's financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of White Cloud’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

# City of White Cloud

## Comments and Recommendations

### For the Year Ended June 30, 2007

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In planning and performing our audit of the financial statements of the City of White Cloud as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in which are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be material weaknesses are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

#### **Other Matters**

*Purchasing policy* – The City lacks a formal purchasing policy requiring all purchases to be approved in advance by a department head. In addition, the City has no policy stating in which cases it is required to seek competitive bids for good or services.

*Payroll approval* – The City's policies and procedures do not require that timesheets be reviewed or approved by supervisory personnel prior to being submitted for payment. We recommend that supervisors with firsthand knowledge of hours actually worked approve all bi-weekly timesheets.

*Tax Revenue Policy* – During the year, the City at times held tax revenue collected for other units in excess of the limitations established by the Michigan Department of Treasury (generally within two weeks of collection). We recommend that the City establish procedures to ensure that all tax revenues collected for other units are remitted in a timely fashion.

# **City of White Cloud**

## **Comments and Recommendations**

**For the Year Ended June 30, 2007**

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*Sick and Vacation Time* – We noted that the City is not following its policy for recording and accruing sick and vacation time for its employees. Per the policy, at year end all sick time remaining for employees should be converted to vacation time. Total vacation has a limit of accruing 150 hours. However, at year end, one employee had a balance in excess of this limit. We recommend that the City follow its written personnel policy related to sick and vacation time. The City should convert all unused sick time to vacation time at year end and limit the accumulation for each employee to 150 hours.

*Investment Policy* – We noted that the City is not following its policy for investments. The City's policy requires the City to diversify the investment of its cash accounts so that the amount held by each financial institution shall not exceed \$100,000. At year end, the amount invested with one financial institution exceeded this amount. In our experience, this policy is unduly restrictive. Accordingly, we recommend that the City consider revising its policy to reflect its current practice.

*Credit Card Policy* – The City has issued corporate credit cards to certain employees, but lacks a formal credit card usage policy, as required by State statute. We recommend that the City adopt such a policy and ensure that its employees are complying with it.

*Investment and Bank Statement Reconciliation Review* – The City does not currently require bank reconciliations and investment statements to be reviewed by an individual other than the preparer. In order to enhance internal controls over this area, we recommend that all such reconciliations be reviewed monthly, and such review be evidenced by initialing and dating the forms.

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